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THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: January 2, 2008

REPORT NO: 07-204

ATTENTION: Council President and City Council
Docket of January 8, 2008

SUBJECT: CalPERS California Retiree Benefit Trust Program

REQUESTED ACTIONS:

- 1) Approve the City's participation in the CalPERS California Retiree Benefit Trust Program (CERBT) to fund the retiree health liability (OPEB).
- 2) Authorize the Mayor to enter into an agreement with the California Public Employees' Retirement System (CalPERS) to participate in the California Employers' Retirement Benefit Trust Program.
- 3) Authorize the contribution of approximately \$30 million in funds appropriated for retiree health to the CERBT.

STAFF RECOMMENDATION:

- 1) Approve the City's participation in the CalPERS California Retiree Benefit Trust Program (CERBT) to fund the retiree health liability (OPEB).
- 2) Authorize the Mayor to enter into an agreement with the California Public Employees' Retirement System (CalPERS) to participate in the California Employers' Retirement Benefit Trust Program.
- 3) Authorize the contribution of approximately \$30 million in funds appropriated for retiree health to the CERBT.

SUMMARY:

The City of San Diego sponsors a retiree health benefit program and has historically funded the annual costs of the program through annual budgeted contributions (pay-as-you-go). In Fiscal Years 2007 and 2008, Council approved \$5 million and \$25 million, respectively, in the annual budgets in addition to the pay-as-you-go amounts to begin to pre-fund the accrued unfunded liability for retiree health benefits, or Other Post Employment Benefits (OPEB). Currently, the OPEB funds totaling approximately \$30 million reside in a trust fund of the City and accrue interest based on the interest rate earned by the City's Pooled Investment Funds.

The Government Accounting Standards Board (GASB) now requires that municipalities report the net liability for retiree health on its financial statements. Cities across the state and nationally are facing the GASB reporting requirements and finding solutions to address the projected growth in the cost of retiree health care. As a result of these new reporting requirements and to find an appropriate trust fund for the City's funding of this liability, staff request that Council approve participation in CalPERS' California Employers' Retiree Benefit Trust (CERBT). This trust fund meets GASB reporting requirements, invests the City's OPEB contributions at a longer term rate of return to achieve optimal asset growth, and mitigates the City's reportable liability for retiree health.

BACKGROUND:

City of San Diego has established and maintains health benefits for eligible retirees as provided in the San Diego Municipal Code Section 24.1201 *et seq.* Retiree benefits are currently administered the San Diego City Employers Retirement System (SDCERS) along with pension benefits. The City has historically paid for retiree health through annual budgeted contributions to pay for expected benefit costs in the current year, or pay-as-you-go. The Mayor's Five Year Outlook in 2006 identified the need to fund the accrued liability for retiree health given the fact that this component of the budget is expected to grow at an increasing rate. The pay-as-you go portion is expected to increase from \$23 million budgeted in fiscal year 2008 to \$50 million in 2014 and possibly \$100 million in 2025. In addition, beginning with the City's fiscal year 2008 Comprehensive Annual Financial Report (CAFR), the City will have to officially calculate its OPEB liability, establish an annual required contribution (ARC) payment and either budget the ARC at its full level or record the difference as a liability on its financial statements. Based on the latest actuarial valuation as of June 30, 2006 performed by Buck Consultants, the Unfunded Accrued Actuarial Liability (UAAL) for Retiree Health is estimated to be \$1.1 billion using a 5% discount rate.

In fiscal years 2007 and 2008, \$5 million and \$25 million, respectively, has been appropriated in the City's annual budgets to begin to fund the accrued OPEB liability. In order for these funds to maximize earnings for retirees and for the City to meet GASB reporting requirements, the \$30 million in OPEB funding needs to be invested in an irrevocable trust where the assets are dedicated to pay the obligations of the City's retiree health benefit plan. Investing the assets in an irrevocable trust will allow for a higher discount rate to be applied in an actuarial valuation of retiree health: that is, a discount rate higher than the 5% used in the latest actuarial valuation as of June 30, 2006. This discount rate can be defined as the expected average return on the assets invested for a long term. A higher discount rate will not only potentially yield higher returns on the assets and grow the funds to the benefit of the beneficiaries of the retiree health plan, but will also lower the ARC payment for the City and mitigate the net retiree health obligation that will be reported on the City's financial statements. Additionally, placing the funds in an irrevocable trust is expected to have a positive effect on the credit rating analysis to be conducted by rating agencies.

Staff have investigated several options for an irrevocable trust, including the establishment of a Voluntary Employees' Beneficiary Association (VEBA). A VEBA is a 501c (9) legal entity requiring that a separate governance, administrative and investment structure be established. While this is one option that may be considered at a later date for comprehensive management of the health benefits for active and retired employees, this option will take considerable time to

develop. The CalPERS trust clearly meets the investment and reporting objectives and can be implemented sooner and efficiently. No plan changes are contemplated at this time with the participation in the CERBT: the CERBT is solely an investment solution that places the appropriated City funds for funding the OPEB liability in an irrevocable trust where it can grow at a rate of return higher than achieved in the City's pooled investment funds.

California Employers Retiree Benefit Trust Fund (CERBT)

The California Employers' Retiree Benefit Trust (CERBT) Fund is a separate fund - a Section 115 Trust - set up for the purpose of receiving employer contributions that will pre-fund health and other post-employment benefit costs for retirees and their beneficiaries. In 2007, CalPERS initially established the CERBT only for contracted employers to pre-fund their OPEB obligations. In October, 2007 AB544 was signed into law allowing public sector employers not contracted with CalPERS to participate in the trust, to be effective January 1, 2008.

The benefits of investing with CalPERS include its 75 year experience in administering employer sponsored plans and a history of exceptional investment performance. Over the past 20 years CalPERS has averaged a 10 percent rate of return on investments. CalPERS is the largest public pension system in the U.S., managing more than \$230 billion in assets for more than 2,500 California employers. CalPERS has lower administration fees than the private sector. The administrative cost for the CERBT is estimated to be 50 basis points (.5%) applied to the invested funds, or approximately \$150,000 for a \$30 million dollar investment. CalPERS has established an investment policy for this fund adopted on December 18, 2006 that outlines the performance objective and investment approaches. This policy is included as an attachment to this report.

The CERBT accomplishes the primary goals for retiree health pre-funding of the OPEB liability that staff presented to the Budget and Finance Committee in September 2007, as follows.

1) Meet GASB reporting requirements

In order to meet GASB reporting requirements, funds that have been set aside to fund the City's OPEB costs need to be placed in an irrevocable trust. The assets cannot be controlled by the City or accessed by the City's creditors and the funds must be dedicated to pay only the plan benefits to beneficiaries of the City's Retirement Health Benefit Plan.

GASB establishes standards for accounting and financial reporting but does not specify how an entity structure an OPEB plan or that the UAAL be funded. Beginning with the fiscal year 2008 financial statements, the City will need to report the net OPEB liability to the extent its actual OPEB contributions are less than its annual OPEB cost, or expense. In addition, the City will need to disclose the funded status of the plan, including the UAAL, in the financial statements.

2) Invest the assets to achieve a higher rate of return to grow retiree assets and mitigate the City's retiree health liability reported in its financial statements.

CERBT is a separate fund from the CalPERS pension fund. The discount rate that can be applied if the entire ARC is invested in CERBT each year is 7.75% or a weighted average if there is partial funding of the ARC.

The Mayor's Five Year Financial Outlook presents a funding plan for retiree health that projects payment of an estimated ARC by 2010. The ARC payment for retiree health is determined through a complex actuarial calculation, but the discount rate, or average expected rate of return, has a significant effect on the amount of the ARC payment. Higher discount rates reduce the unfunded liability and the annual ARC payment. The discount rate for the CERBT is 7.75% if the ARC is fully contributed. If less than the ARC is invested annually, a weighted discount rate is applied that is calculated by the actuaries using the economic assumptions required by CalPERS.

For example, were the City to invest \$30 million into the CERBT in January 2008, the weighted discount rate that could be applied by the actuaries to calculate the ARC would be a blended rate between 6-7%. As the City's prefunding contributions increase, the blended discount rate would also increase to the maximum of 7.75% as established by CalPERS for this trust.

3) No plan changes at this time. The City maintains its fiduciary responsibility.

The CERBT provides a sound solution for investing retiree health assets and does not change retiree health plan benefits or plan administration. The City remains the plan sponsor and this action addresses the investment of the funds appropriated by Council to begin to pre-fund retiree health obligations. The funds will be invested to grow retiree health assets for health beneficiaries in a cost effective trust structure administered by an organization that has a historical track record for strong investment management. (Past performance does not predict future results.)

FISCAL CONSIDERATIONS:


Approximately thirty million (\$30,000,000) in funds appropriated by City Council for funding retiree health obligations will be contributed to the California Employer's Retiree Benefit Trust Program (CERBT) and invested according to the California Public Employees' Retirement System Statement of Investment Policy for Annuitants' Health Coverage Fund.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

The Budget and Finance Committee accepted the report on Health Trust Options on September 12, 2007. On November 14, 2007, the Budget and Finance Committee voted unanimously to recommend the City's participation in the CERBT to full Council with direction to consult with employee groups prior to its presentation to Council for their consideration.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Beneficiaries of the Retirement Health Benefit Plan of the City of San Diego
City Council Members as Plan Sponsors of the Retirement Health Benefit Plan



Mary Lewis
Financial Management Director



Jay M. Goldstone
Chief Operating Officer

Attachments:

California Employer's Retirement Benefit Trust Program (CERBT) Participation Agreement

California Public Employees' Retirement System Statement of Investment Policy for
Annuitant's Healthcare Coverage Fund

Actuarial Valuation Report City of San Diego Retiree Health Benefit Program as of June 30,
2006

CALIFORNIA EMPLOYER'S RETIREE BENEFIT TRUST PROGRAM ("CERBT")**AGREEMENT AND ELECTION
OF**

(NAME OF EMPLOYER)

**TO PREFUND OTHER POST EMPLOYMENT
BENEFITS THROUGH CalPERS**

WHEREAS (1) Government Code Section 22940 establishes in the State Treasury the Annuitants' Health Care Coverage Fund for the prefunding of health care coverage for annuitants (Prefunding Plan); and

WHEREAS (2) The California Public Employees' Retirement System (CalPERS) Board of Administration (Board) has sole and exclusive control and power over the administration and investment of the Prefunding Plan (sometimes also referred to as CERBT), the purposes of which include, but are not limited to (i) receiving contributions from participating employers and establishing separate Employer Prefunding Accounts in the Prefunding Plan for the performance of an essential governmental function (ii) investing contributed amounts and income thereon, if any, in order to receive yield on the funds and (iii) disbursing contributed amounts and income thereon, if any, to pay for costs of administration of the Prefunding Plan and to pay for health care costs or other post employment benefits in accordance with the terms of participating employers' plans; and

WHEREAS (3) _____
(NAME OF EMPLOYER)

(Employer) desires to participate in the Prefunding Plan upon the terms and conditions set by the Board and as set forth herein; and

WHEREAS (4) Employer may participate in the Prefunding Plan upon (i) approval by the Board and (ii) filing a duly adopted and executed Agreement and Election to Prefund Other Post Employment Benefits (Agreement) as provided in the terms and conditions of the Agreement; and

WHEREAS (5) The Prefunding Plan is a trust fund that is intended to perform an essential governmental function within the meaning of Section 115 of the Internal Revenue Code as an agent multiple-employer plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 43 consisting of an aggregation of single-employer plans, with pooled administrative and investment functions;

NOW, THEREFORE, BE IT RESOLVED THAT EMPLOYER HEREBY MAKES THE FOLLOWING REPRESENTATION AND WARRANTY AND THAT THE BOARD AND EMPLOYER AGREE TO THE FOLLOWING TERMS AND CONDITIONS:

A. Representation and Warranty

Employer represents and warrants that it is a political subdivision of the State of California or an entity whose income is excluded from gross income under Section 115 (1) of the Internal Revenue Code.

B. Adoption and Approval of the Agreement; Effective Date; Amendment

(1) Employer's governing body shall elect to participate in the Prefunding Plan by adopting this Agreement and filing with the CalPERS Board a true and correct original or certified copy of this Agreement as follows:

Filing by mail, send to: CalPERS
Constituent Relations Office
CERBT (OPEB)
P.O. Box 942709
Sacramento, CA 94229-2709

Filing in person, deliver to: CalPERS Mailroom
Attn: Employer Services Division
400 Q Street
Sacramento, CA 95814

(2) Upon receipt of the executed Agreement, and after approval by the Board, the Board shall fix an effective date and shall promptly notify Employer of the effective date of the Agreement.

(3) The terms of this Agreement may be amended only in writing upon the agreement of both CalPERS and Employer, except as otherwise provided herein. Any such amendment or modification to this Agreement shall be adopted and executed in the same manner as required for the Agreement. Upon receipt of the executed amendment or modification, the Board shall fix the effective date of the amendment or modification.

(4) The Board shall institute such procedures and processes as it deems necessary to administer the Prefunding Plan, to carry out the purposes of this Agreement, and to maintain the tax exempt status of the Prefunding Plan. Employer agrees to follow such procedures and processes.

C. Actuarial Valuation and Employer Contributions

(1) Employer shall provide to the Board an actuarial valuation report on the basis of the actuarial assumptions and methods prescribed by the Board. Such report shall be for the Board's use in financial reporting, shall be prepared at least as often as the minimum frequency required by GASB Statement No. 43, and shall be:

- (a) prepared and signed by a Fellow or Associate of the Society of Actuaries who is also a Member of the American Academy of Actuaries or a person with equivalent qualifications acceptable to the Board;
- (b) prepared in accordance with generally accepted actuarial practice and GASB Statement Nos. 43 and 45; and,
- (c) provided to the Board prior to the Board's acceptance of contributions for the valuation period or as otherwise required by the Board.

(2) The Board may reject any actuarial valuation report submitted to it, but shall not unreasonably do so. In the event that the Board determines, in its sole discretion, that the actuarial valuation report is not suitable for use in the Board's financial statements or if Employer fails to provide a required actuarial valuation, the Board may obtain, at Employer's expense, an actuarial valuation that meets the Board's financial reporting needs. The Board may recover from Employer the cost of obtaining such actuarial valuation by billing and collecting from Employer or by deducting the amount from Employer's account in the Prefunding Plan.

(3) Employer shall notify the Board of the amount and time of contributions which contributions shall be made in the manner established by the Board.

(4) Employer contributions to the Prefunding Plan may be limited to the amount necessary to fully fund Employer's actuarial present value of total projected benefits, as supported by the actuarial valuation acceptable to the Board. As used throughout this document, the meaning of the term "actuarial present value of total projected benefits" is as defined in GASB Statement No. 45. If Employer's contribution causes its assets in the Prefunding Plan to exceed the amount required to fully fund the actuarial present value of total projected benefits, the Board may refuse to accept the contribution.

(5) Any Employer contribution will be at least \$5000 or be equal to Employer's Annual Required Contribution as that term is defined in GASB Statement No. 45. Contributions can be made at any time following the seventh day after the effective date of the Agreement provided that Employer has first complied with the requirements of Paragraph C.

D. Administration of Accounts, Investments, Allocation of Income

- (1) The Board has established the Prefunding Plan as an agent plan consisting of an aggregation of single-employer plans, with pooled administrative and investment functions, under the terms of which separate accounts will be maintained for each employer so that Employer's assets will provide benefits only under employer's plan.
- (2) All Employer contributions and assets attributable to Employer contributions shall be separately accounted for in the Prefunding Plan (Employer's Prefunding Account).
- (3) Employer's Prefunding Account assets may be aggregated with prefunding account assets of other employers and may be co-invested by the Board in any asset classes appropriate for a Section 115 Trust.
- (4) The Board may deduct the costs of administration of the Prefunding Plan from the investment income or Employer's Prefunding Account in a manner determined by the Board.
- (5) Investment income shall be allocated among employers and posted to Employer's Prefunding Account as determined by the Board but no less frequently than annually.
- (6) If Employer's assets in the Prefunding Plan exceed the amount required to fully fund the actuarial present value of total projected benefits, the Board, in compliance with applicable accounting and legal requirements, may return such excess to Employer.

E. Reports and Statements

- (1) Employer shall submit with each contribution a contribution report in the form and containing the information prescribed by the Board.
- (2) The Board shall prepare and provide a statement of Employer's Prefunding Account at least annually reflecting the balance in Employer's Prefunding Account, contributions made during the period and income allocated during the period, and such other information as the Board determines.

F. Disbursements

- (1) Employer may receive disbursements not to exceed the annual premium and other costs of post employment healthcare benefits and other post employment benefits.
- (2) Employer shall notify CalPERS in writing in the manner specified by CalPERS of the persons authorized to request disbursements from the Prefunding Plan on behalf of Employer.

(3) Employer's request for disbursement shall be in writing signed by Employer's authorized representative, in accordance with procedures established by the Board. The Board may require that Employer certify or otherwise establish that the monies will be used for the purposes of the Prefunding Plan.

(4) Requests for disbursements that satisfy the requirements of paragraphs (2) and (3) that are received on or after the first of a month will be processed by the 15th of the following month. (For example, a disbursement request received on or between March 1st and March 31st will be processed by April 15th; and a disbursement request received on or between April 1st and April 30th will be processed by May 15th.)

(5) CalPERS shall not be liable for amounts disbursed in error if it has acted upon the instruction of an individual authorized by Employer to request disbursements. In the event of any other erroneous disbursement, the extent of CalPERS' liability shall be the actual dollar amount of the disbursement, plus interest at the actual earnings rate but not less than zero.

(6) No disbursement shall be made from the Prefunding Plan which exceeds the balance in Employer's Prefunding Account.

G. Costs of Administration

Employer shall pay its share of the costs of administration of the Prefunding Plan, as determined by the Board.

H. Termination of Employer Participation in Prefunding Plan

(1) The Board may terminate Employer's participation in the Prefunding Plan if:

(a) Employer gives written notice to the Board of its election to terminate;

(b) The Board finds that Employer fails to satisfy the terms and conditions of this Agreement or of the Board's rules or regulations.

(2) If Employer's participation in the Prefunding Plan terminates for any of the foregoing reasons, all assets in Employer's Prefunding Account shall remain in the Prefunding Plan, except as otherwise provided below, and shall continue to be invested and accrue income as provided in Paragraph D.

(3) After Employer's participation in the Prefunding Plan terminates, Employer may not make contributions to the Prefunding Plan.

(4) After Employer's participation in the Prefunding Plan terminates, disbursements from Employer's Prefunding Account may continue upon Employer's instruction or otherwise in accordance with the terms of this Agreement.

(5) After thirty-six (36) months have elapsed from the effective date of this Agreement:

- (a) Employer may request a trustee to trustee transfer of the assets in Employer's Prefunding Account. Upon satisfactory showing to the Board that the transfer will satisfy applicable requirements of the Internal Revenue Code and the Board's fiduciary duties, then the Board shall effect the transfer within one hundred twenty (120) days. The amount to be transferred shall be the amount in the Employer's Prefunding Account as of the disbursement date and shall include investment earnings up to the investment earnings allocation date immediately preceding the disbursement date. In no event shall the investment earnings allocation date precede the transfer by more than 120 days.
- (b) Employer may request a disbursement of the assets in Employer's Prefunding Account. Upon satisfactory showing to the Board that all of Employer's obligations for payment of post employment health care benefits and other post employment benefits and reasonable administrative costs of the Board have been satisfied, then the Board shall effect the disbursement within one hundred twenty (120) days. The amount to be disbursed shall be the amount in the Employer's Prefunding Account as of the disbursement date and shall include investment earnings up to the investment earnings allocation date immediately preceding the disbursement date. In no event shall the investment earnings allocation date precede the disbursement by more than 120 days.

(6) After Employer's participation in the Prefunding Plan terminates and at such time that no assets remain in Employer's Prefunding Account, this Agreement shall terminate.

(7) If, for any reason, the Board terminates the Prefunding Plan, the assets in Employer's Prefunding Account shall be paid to Employer after retention of (i) amounts sufficient to pay post employment health care benefits and other post employment benefits to annuitants for current and future annuitants, and (ii) amounts sufficient to pay reasonable administrative costs of the Board.

(8) If Employer ceases to exist but Employer's Prefunding Plan continues to exist and if no provision has been made by Employer for ongoing payments to pay post employment health care benefits and other post employment benefits to annuitants for current and future annuitants, the Board is authorized to and shall appoint a third party administrator to carry out Employer's Prefunding Plan. Any and all costs associated

with such appointment shall be paid from the assets attributable to contributions by Employer.

(9) If Employer should breach the representation and warranty set forth in Paragraph A., the Board shall take whatever action it deems necessary to preserve the tax-exempt status of the Prefunding Plan.

I. General Provisions

(1) Books and Records.

Employer shall keep accurate books and records connected with the performance of this Agreement. Employer shall ensure that books and records of subcontractors, suppliers, and other providers shall also be accurately maintained. Such books and records shall be kept in a secure location at the Employer's office(s) and shall be available for inspection and copying by CalPERS and its representatives at any time.

(2) Audit.

- (a) During and for three years after the term of this Agreement, Employer shall permit the Bureau of State Audits, CalPERS, and its authorized representatives, and such consultants and specialists as needed, at all reasonable times during normal business hours to inspect and copy, at the expense of CalPERS, books and records of Employer relating to its performance of this Agreement.
- (b) Employer shall be subject to examination and audit by the Bureau of State Audits, CalPERS, and its authorized representatives, and such consultants and specialists as needed, during the term of this Agreement and for three years after final payment under this Agreement. Any examination or audit shall be confined to those matters connected with the performance of this Agreement, including, but not limited to, the costs of administering this Agreement. Employer shall cooperate fully with the Bureau of State Audits, CalPERS, and its authorized representatives, and such consultants and specialists as needed, in connection with any examination or audit. All adjustments, payments, and/or reimbursements determined to be necessary by any examination or audit shall be made promptly by the appropriate party.

(3) Notice.

- (a) Any notice, approval, or other communication required or permitted under this Agreement will be given in the English language and will be deemed received as follows:

1. Personal delivery. When personally delivered to the recipient. Notice is effective on delivery.
2. First Class Mail. When mailed first class to the last address of the recipient known to the party giving notice. Notice is effective three delivery days after deposit in a United States Postal Service office or mailbox.
3. Certified mail. When mailed certified mail, return receipt requested. Notice is effective on receipt, if delivery is confirmed by a return receipt.
4. Overnight Delivery. When delivered by an overnight delivery service, charges prepaid or charged to the sender's account, Notice is effective on delivery, if delivery is confirmed by the delivery service.
5. Telex or Facsimile Transmission. When sent by telex or fax to the last telex or fax number of the recipient known to the party giving notice. Notice is effective on receipt, provided that (i) a duplicate copy of the notice is promptly given by first-class or certified mail or by overnight delivery, or (ii) the receiving party delivers a written confirmation of receipt. Any notice given by telex or fax shall be deemed received on the next business day if it is received after 5:00 p.m. (recipient's time) or on a nonbusiness day.
6. E-mail transmission. When sent by e-mail using software that provides unmodifiable proof (i) that the message was sent, (ii) that the message was delivered to the recipient's information processing system, and (iii) of the time and date the message was delivered to the recipient along with a verifiable electronic record of the exact content of the message sent.

Addresses for the purpose of giving notice are as shown in Paragraph B.(1) of this Agreement.

- (b) Any correctly addressed notice that is refused, unclaimed, or undeliverable because of an act or omission of the party to be notified shall be deemed effective as of the first date that said notice was refused, unclaimed, or deemed undeliverable by the postal authorities, messenger or overnight delivery service.
- (c) Any party may change its address, telex, fax number, or e-mail address by giving the other party notice of the change in any manner permitted by this Agreement.

- (d) All notices, requests, demands, amendments, modifications or other communications under this Agreement shall be in writing. Notice shall be sufficient for all such purposes if personally delivered, sent by first class, registered or certified mail, return receipt requested, delivery by courier with receipt of delivery, facsimile transmission with written confirmation of receipt by recipient, or e-mail delivery with verifiable and unmodifiable proof of content and time and date of sending by sender and delivery to recipient. Notice is effective on confirmed receipt by recipient or 3 business days after sending, whichever is sooner.

(4) Modification

This Agreement may be supplemented, amended, or modified only by the mutual agreement of the parties. No supplement, amendment, or modification of this Agreement shall be binding unless it is in writing and signed by the party to be charged.

(5) Survival

All representations, warranties, and covenants contained in this Agreement, or in any instrument, certificate, exhibit, or other writing intended by the parties to be a part of their Agreement shall survive the termination of this Agreement until such time as all amounts in Employer's Prefunding Account have been disbursed.

(6) Waiver

No waiver of a breach, failure of any condition, or any right or remedy contained in or granted by the provisions of this Agreement shall be effective unless it is in writing and signed by the party waiving the breach, failure, right, or remedy. No waiver of any breach, failure, right, or remedy shall be deemed a waiver of any other breach, failure, right, or remedy, whether or not similar, nor shall any waiver constitute a continuing waiver unless the writing so specifies.

(7) Necessary Acts, Further Assurances

The parties shall at their own cost and expense execute and deliver such further documents and instruments and shall take such other actions as may be reasonably required or appropriate to evidence or carry out the intent and purposes of this Agreement.

A majority vote of Employer's Governing Body at a public meeting held on the _____ day of the month of _____ 2007, authorized entering into this Agreement.

Signature of the Presiding Officer: _____

Printed Name of the Presiding Officer: _____

Name of Governing Body: _____

Name of Employer: _____

Date: _____

BOARD OF ADMINISTRATION
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BY _____
KENNETH W. MARZION
ACTUARIAL AND EMPLOYER SERVICES BRANCH
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

To be completed by CalPERS

The effective date of this Agreement is: _____

001931

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

**FOR
ANNUITANTS' HEALTHCARE COVERAGE FUND**

December 18, 2006

This Policy is effective immediately upon adoption.

I. PURPOSE

This document sets forth the investment policy ("the Policy") for the Annuitants' Healthcare Coverage Fund ("the Fund"). The design of this Policy ensures that investors, managers, consultants, or other participants selected by the California Public Employees' Retirement System ("the System") take prudent and careful action while managing the Fund. Additionally, use of this Policy provides assurance that there is sufficient flexibility in controlling investment risks and returns associated with this Fund.

II. STRATEGIC OBJECTIVE

Ensure that the Fund has liquidity adequate to meet its projected cash flow needs, while at the same time keeping its cash balances fully invested, so as to achieve the highest total rate of return possible, consistent with a prudent level of risk.

The Fund shall be managed to accomplish the following:

- A. Provide sufficient liquidity to meet all cash needs;
- B. Enhance the Fund's total rate of return by ensuring that all cash balances are fully invested at all times until they are needed by the Fund;
- C. Maintain sufficient diversification to avoid large losses and preserve capital; and
- D. Consider solely the interest of the Fund's participants and their beneficiaries in accordance with California State Law.

III. RESPONSIBILITIES AND DELEGATIONS

- A. The **System's Investment Committee** ("the Investment Committee") is responsible for approving and amending the Policy. The Investment Committee delegates the responsibility for administering the Fund to the Investment Staff through the Delegation of Authority (Delegation Nos. 89-13 and 95-50).

- B. The **System's Investment Staff** ("the Staff") is responsible for:
1. Implementing and adhering to the Policy;
 2. Reporting internally to senior management concerning the implementation of this Policy. This report shall be prepared at least monthly to include, but is not limited to, the current market value and allocations by asset class compared to the asset allocation targets.
- C. The **General Pension Consultant** ("the Consultant") is responsible for monitoring, evaluating, and reporting to the Investment Committee, at least quarterly, the Fund's performance relative to the benchmark and Policy guidelines.

IV. PERFORMANCE OBJECTIVE

The Fund, at a minimum, shall generate a long-term total return that meets or exceeds the Fund's actuarial interest rate assumption.

V. INVESTMENT APPROACHES AND PARAMETERS

A. Philosophy and Approach

The Fund shall be managed in accordance with the CalPERS Statement of Investment Policy for Asset Allocation Strategy approved by the Investment Committee and in a manner consistent with each individual Board-Approved Policy governing each asset class. Such policies shall specify the method and parameters for implementation and provide for the ongoing monitoring of that asset class.

B. Fund Structure/Parameters

The System shall manage the Fund in accordance with the following strategic asset allocation. In order to increase the investment opportunities, the Fund shall hold an interest in pooled funds managed by the System. The System's Master Custodian shall employ a unitized fund structure to maintain separate and distinct historical records and to produce individual net asset values (NAV's) for each asset class in the Fund.

**The Annuitants' Healthcare Coverage Fund
Strategic Asset Allocation**

Asset Class	Policy Allocation	Policy Range
U. S. Equity	35%	30% - 40%
Int'l Equity	29%	24% - 34%
REITs	10%	7% - 13%
U. S. Fixed Income	20%	17% - 23%
High Yield	6%	3% - 9%
Cash Equivalent	0%	0%

Expected Return: 7.75%
 Expected Risk: 11.91%
 Return/Risk: 0.65

C. Restrictions, Prohibitions and Permissible Securities

Restrictions, Prohibitions and Permissible Securities of the Fund are defined in the Board-Approved Policy governing each asset class, as follows:

U. S. Equity: Pooled S&P 500 Equity Index Fund – Internally Managed

Int'l Equity: Equity Index Funds – Internally Managed

REITs: Enhanced CORE Index Public Real Estate Equity Securities – Internally Managed

U. S. Fixed Income and High Yield: Dollar-Denominated Fixed Income Program

Cash: Dollar-Denominated Short-Term Program – Internally Managed

VI. BENCHMARK

The benchmark for each of the Fund's asset class investments is defined in the Board-Approved Policy governing each asset class. The benchmark for the Fund as a whole shall be a weighted asset class benchmark based on asset class index returns weighted by asset class policy targets.

VII. GENERAL

Investors, managers, consultants, or other participants selected by the System shall make all calculations and computations on a market value basis, as recorded by the System's custodian.

VIII. GLOSSARY OF TERMS

Definitions of key words used in this policy are located in the Miscellaneous Investment Policies Glossary of Terms which is included in the System's Master Glossary of Terms.

Annuitants' Healthcare Coverage Fund

Approved by the Policy Subcommittee:

December 15, 2006

Adopted by the Investment Committee:

December 18, 2006



June 1, 2007

Ms. Valerie VanDeweghe
Benefits Administrator
Risk Management Department
City of San Diego
1200 Third Avenue, Suite 1000
San Diego, CA 92101

RE: City of San Diego – GASB 45 Liability

Dear Valerie:

This letter presents the results of Buck Consultants' (Buck's) actuarial analysis of the current liability for the City of San Diego's (the City's) postretirement medical benefit program as of June 30, 2006 using current census data and plan provisions. The goal of this analysis is to provide a baseline liability reference for GASB 45 reporting purposes.

Our understanding of the City provided retiree medical benefit plan provisions are summarized as:

Health Eligible Retirees (retired on or after October 6, 1980):

- Non-Medicare eligible retirees receive reimbursements of actual HMO or PPO premium, up to \$645.99 per month for the fiscal year beginning July 1, 2006
- Medicare eligible retirees receive reimbursements of actual HMO or PPO premium, up to \$608.37 per month for the fiscal year beginning July 1, 2006
- Medicare eligible retirees also receive reimbursements of Medicare Part B premium, which is \$93.50 per month effective January 1, 2007

Ms. Valerie VanDeweghe
 June 1, 2007
 Page 2

- The maximum reimbursement levels are increased each year by the projected percentage increase in the total National Health Expenditures as stated by CMS for that year.

Non-Health Eligible Retirees (retired before October 6, 1980):

- Reimbursed up to \$100 per month for incurred medical expenses and Medicare Part B premium. The maximum reimbursement level does not increase.

Employees hired on or after July 1, 2005 are not eligible for this plan.

General Results

Table 1 summarizes the Accumulated Postretirement Benefit Obligation (APBO) as of June 30, 2006 for active employees, retirees, and vested terminees in the program. The APBO is defined as the actuarial present value of benefits attributed to employee service rendered to date.

The table also shows the normal cost, which is the amount of benefit to be earned by the active employees for service in fiscal year 2007. A discount rate of 5% is used in Table 1 corresponding to pay-as-you-go funding of benefits. GASB 45 allows for a higher discount rate resulting in lower liability amounts for a pre-funded plan.

Table 1: City of San Diego 6/30/2006 Valuation Results

Discount Rate =	5.00%		
APBO	<u>General</u>	<u>Safety</u>	<u>Total</u>
Retirees	\$ 163,383,975	\$ 135,733,521	\$ 299,117,496
Actives	445,199,369	268,313,738	713,513,107
Term Vesteds	<u>63,813,030</u>	<u>20,753,098</u>	<u>84,566,128</u>
Total UAAL	\$ 672,396,374	\$ 424,800,357	\$ 1,097,196,731
 Entry Age Normal Normal Cost	 \$ 24,291,544	 \$ 13,005,283	 \$ 37,296,828
 Annual Required Contribution			
Normal Cost	\$ 24,291,544	\$ 13,005,283	\$ 37,296,828
30 Year Amortization of UAAL	<u>42,673,511</u>	<u>26,959,876</u>	<u>69,633,387</u>
Estimated ARC	\$ 66,965,056	\$ 39,965,159	\$ 106,930,215

Ms. Valerie VanDeweghe
 June 1, 2007
 Page 3

Government Accounting Standards Board (GASB) Statement Number 45 provides disclosure requirements for Other Postemployment Benefit (OPEB) plans effective as early as plan years beginning after December 15, 2006. GASB Statement 45 requires the calculation of an Annual Required Contribution (ARC) consisting of the Normal Cost and a not greater than 30 year amortization of the Unfunded Actuarial Accrued Liability (UAAL). There is no requirement for the City to actually fund this amount. The UAAL is the Accumulated Postretirement Benefit Obligation (APBO) less any assets held for the plan.

Most government postretirement medical plans are currently on a pay-as-you-go basis with no dedicated assets or funding scheme. The GASB statement requires that these plan liabilities be recognized on an accounting basis if not through an actual pre-funding arrangement. Table 1 develops the estimated ARC for fiscal year 2007 under the current benefit plan using a 30-year amortization of the UAAL.

The Table 1 results reflect an Entry Age Normal actuarial cost method and a level dollar amortization of the UAAL. Other funding and amortization methods are permissible under GASB 45. Table 2 uses an 8% discount rate reflecting full funding of the ARC to a dedicated trust. This is in contrast to the pay-as-you-go funding method assumed in Table 1.

Table 2: City of San Diego 6/30/2006 Valuation Results

Discount Rate =	8.00%		
APBO	<u>General</u>	<u>Safety</u>	<u>Total</u>
Retirees	\$ 119,332,829	\$ 96,147,408	\$ 215,480,237
Actives	252,708,982	156,520,492	409,229,474
Term Vesteds	<u>32,552,953</u>	<u>10,745,675</u>	<u>43,298,628</u>
Total UAAL	\$ 404,594,764	\$ 263,413,575	\$ 668,008,339
 Entry Age Normal Normal Cost	 \$ 10,947,346	 \$ 5,646,291	 \$ 16,593,637
 Annual Required Contribution			
Normal Cost	\$ 10,947,346	\$ 5,646,291	\$ 16,593,637
30 Year Amortization of UAAL	<u>34,556,841</u>	<u>22,498,415</u>	<u>57,055,256</u>
Estimated ARC	\$ 45,504,187	\$ 28,144,706	\$ 73,648,893

Future Cash Flows

Table 3 below illustrates the expected 25-year cash flows for the current benefit plan. This demonstrates the continuation of the pay-as-you-go funding cost. It is interesting to compare these cash outflows to the cost of pre-funding the annual required contribution (ARC).

Table 3: Expected Future Cash Flows

<u>Fiscal Year</u>	<u>Current Actives</u>	<u>Current Retirees</u>	<u>Vested Terminations</u>	<u>Total Expected Cash Flow</u>
2007	\$ 1,197,203	\$ 14,915,600	\$ 89,659	\$ 16,202,462
2008	3,150,857	15,790,263	137,089	19,078,209
2009	5,300,841	16,518,851	222,608	22,042,300
2010	7,706,184	17,250,030	342,950	25,299,164
2011	10,481,056	17,973,205	492,158	28,946,419
2012	13,605,072	18,596,406	652,780	32,854,258
2013	17,132,237	19,223,326	838,375	37,193,938
2014	21,153,935	19,640,261	1,231,771	42,025,967
2015	25,422,309	19,939,726	1,760,750	47,122,785
2016	29,940,825	20,106,838	2,194,769	52,242,432
2017	34,510,553	20,132,971	2,634,923	57,278,447
2018	39,055,910	20,133,873	3,212,340	62,402,123
2019	43,776,189	20,058,013	3,714,201	67,548,403
2020	48,613,464	19,911,625	4,274,567	72,799,656
2021	53,599,734	19,681,582	4,716,512	77,997,828
2022	58,891,134	19,416,055	5,288,211	83,595,400
2023	64,189,404	19,183,518	5,808,666	89,181,588
2024	69,482,747	18,860,587	6,364,154	94,707,488
2025	74,645,546	18,430,199	6,902,035	99,977,780
2026	79,810,202	17,899,344	7,606,777	105,316,323
2027	84,769,023	17,409,968	8,109,098	110,288,089
2028	89,419,962	16,864,362	8,533,238	114,817,562
2029	93,637,884	16,232,724	8,951,550	118,822,158
2030	97,627,965	15,643,894	9,299,821	122,571,680
2031	101,455,863	15,012,828	9,670,899	126,139,590

Ms. Valerie VanDeweghe
June 1, 2007
Page 5

Assumptions

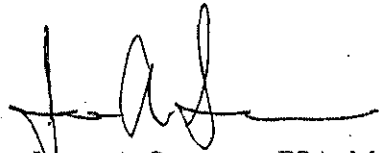
Appendix A provides the assumptions used for the actuarial analysis. This list includes items such as expected turnover rates, retirement rate, future trend rates, and mortality rates. The assumptions that we used are consistent with those used in the previous actuarial valuation for the City. Appendix B provides a glossary of commonly used terms for postretirement medical valuations. Appendix C shows the annual required contribution amounts based on a 20-year amortization of the unfunded liability.

Please contact me at (619) 297-4930 should you have any questions.

Sincerely,



Michael W. Schionning, FSA, MAA.
Principal & Consulting Actuary



James A. Summers, FSA, MAAA
Director & Consulting Actuary

APPENDIX A

Valuation AssumptionsMortality Rates—RP2000 Combined Mortality Table (male and female)Withdrawal Rates—Representative values are shown below

Age	Years of Service	Probability of Termination During Year	
		General	Safety
Any	0	7.0%	3.0%
	1	6.0%	2.0%
	2	4.3%	2.0%
	3	4.3%	2.0%
	4	4.2%	2.0%
20	5 & Over	4.6%	2.4%
25		4.6%	2.3%
30		3.8%	1.9%
35		2.5%	1.2%
40		2.0%	0.6%
45		1.6%	0.4%
55		1.4%	0.1%
55		1.2%	0.0%

New Entrants—None AssumedDependent Assumptions—No dependent coverageDiscount Rate—5% and 8%Participation Assumption—98% active participation assumed upon retirement.Medical Demographic Information—10,204 active employees, 729 vested terminated, and 4,260 retirees as of June 30, 2006.

Retirement Rates

APPENDIX A

Retirement Age	Rate of Retirement	
	General	Safety
50	0%	30%
51	0%	20%
52	0%	20%
53	0%	30%
54	0%	30%
55	20%	50%
56	10%	40%
57	10%	40%
58	15%	40%
59	15%	60%
60	20%	75%
61	25%	80%
62	50%	100%
63	40%	100%
64	25%	100%
65	50%	100%
66	40%	100%
67	40%	100%
68	40%	100%
69	40%	100%
70	100%	100%

For all members, 100% are assumed to retire at the later of age 55 and 30 years of service. Current vested terminated participants are assumed to retire as soon as eligible.

Health Care Cost and Expense Trend—Annual trend rates are 10% for FY2007, grading down 0.5% each year to 5% for FY2017 and beyond.

City Medical Premium Reimbursement Cap Trend Rate—Based on CMS projected trends at an initial rate of 7.5% decreasing to 5.5% in 2014 and thereafter.

APPENDIX B

Glossary of Terminology

Accumulated Postretirement Benefit Obligation (APBO) - The actuarial present value of benefits attributed to employee service rendered to a particular date.

Active Plan Participant - Any active employee who has rendered service during the credited service period and is expected to receive benefits, including benefits to or for any beneficiaries and covered dependents, under the postretirement benefit plan.

Actuarial Present Value - The value, as of a specified date, of a future benefit cost or a series of benefit costs, with each amount adjusted to reflect (a) the time value of money (through discounts for interest and (b) the probability of payment (for example, by means of decrements for events such as death, disability, withdrawal or retirement) between the specified date and the expected date of payment.

Amortization - Systematic reduction of the principal portion (only) of an asset or liability.

Annual Required Contribution - Consists of the normal cost and a portion of the total unfunded actuarial accrued liability (UAAL). The normal cost and UAAL are derived from the actuarial present value of benefits, the actuarial cost method and the plan assets.

Attribution Period - The period of an employee's service to which the expected postretirement benefit obligation for that employee is assigned.

Discount Rate - The interest rate used in developing present values to reflect the time value of money.

Expected Postretirement Benefit Obligation (EPBO) - The actuarial present value as of a particular date of the benefit expected to be paid to or for an employee, the employee's beneficiaries, and any covered dependents pursuant to the terms of the postretirement benefit plan.

APPENDIX B

Health Care Cost Trend Rate - An assumption about the annual rate(s) of change in the cost of health care benefits currently provided by the postretirement benefit plan, due to factors other than changes in the composition of the plan population by age and dependency status, for each year from the measurement date until the end of the period in which benefits are expected to be paid. The Health Care Cost Trend Rate implicitly considers estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of plan participants. Differing types of service, such as hospital care and dental care, may have different trends.

Normal Cost - The portion of the Expected Postretirement Benefit Obligation attributed to employee service during a period.

Substantive Plan - The terms of a postretirement benefit plan as understood by an employer that provides postretirement benefits and the employees who render services in exchange for those benefits. The substantive plan is the basis for the accounting for that exchange transaction. In some situations an employer's cost-sharing policy, as evidenced by past practice or by communication of intended changes to a plan's cost-sharing provisions, or a past practice of regular increases in certain monetary benefits may indicate that the substantive plan differs from the extant written plan.

APPENDIX C

20-Year Unfunded Liability Amortization Results

Annual Required Contribution	5% Discount Rate		
Normal Cost	\$ 32,986,854	\$ 17,853,225	\$ 50,840,079
20 Year Amortization of UAAL	<u>46,918,823</u>	<u>29,314,556</u>	<u>76,233,378</u>
Estimated ARC	\$ 79,905,677	\$ 47,167,780	\$ 127,073,457

Annual Required Contribution	8% Discount Rate		
Normal Cost	\$ 10,947,346	\$ 5,646,291	\$ 16,593,637
20 Year Amortization of UAAL	<u>39,623,914</u>	<u>25,797,360</u>	<u>65,421,274</u>
Estimated ARC	\$ 50,571,260	\$ 31,443,651	\$ 82,014,911

001945

REQUEST FOR COUNCIL ACTION

CITY OF SAN DIEGO

1. CERTIFICATE NUMBER
(FOR AUDITOR'S USE ON)

01/08

333

TO:
CITY ATTORNEY2. FROM (ORIGINATING DEPARTMENT):
Financial Management3. DATE:
11/14/07

4. SUBJECT:

Participation in CalPERS California Employers Health Trust Program (CERBT)

5. PRIMARY CONTACT (NAME, PHONE & MAIL STA.)

Mary Lewis 235-5880

Martha Davis 236-7315

7. CHECK BOX IF REPORT TO
COUNCIL IS ATTACHED ☒

8. COMPLETE FOR ACCOUNTING PURPOSES

FUND	60013			
DEPT.				
ORGANIZATION				
OBJECT ACCOUNT	9532			
JOB ORDER				
C.I.P. NUMBER				
AMOUNT				

9. ADDITIONAL INFORMATION / ESTIMATED COST:

Contribute the balance of fund 60013, approximately \$30 million, to an irrevocable trust for the benefit of beneficiaries of the City's health benefit program for retirees.

10. ROUTING AND APPROVALS

ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED	ROUTE (#)	APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
1	ORIGINATING DEPARTMENT	<i>Mary Lewis</i>	11/15/07	8	DEPUTY CHIEF		
2	COMPTROLLER	<i>[Signature]</i>	11/15/07	9	COO	<i>[Signature]</i>	11/16/07
3				10	CITY ATTORNEY	<i>[Signature]</i>	11/16/07
4	LIAISON OFFICE			11	ORIGINATING DEPARTMENT	<i>Mary Lewis</i>	11/16/07
5				DOCKET COORD: <i>11/20/07</i> COUNCIL LIAISON: <i>[Signature]</i>			
6				COUNCIL PRESIDENT <input type="checkbox"/> SPOB <input type="checkbox"/> CONSENT <input type="checkbox"/> ADOPTION <input checked="" type="checkbox"/>			
7				COUNCIL DATE: <i>1/8/08</i>			

11. PREPARATION OF:

☐ RESOLUTION(S)☐ ORDINANCE(S)☐ AGREEMENT(S)☐ DEED(S)

1) Approve the City's participation in the CalPERS California Employers' Retiree Benefit Trust Program (CERBT). 2) Authorize the Mayor to enter into an agreement with the California Public Employees' Retirement System (CalPERS) to participate in the California Employers' Retirement Benefit Trust Program. 3) Authorize the Comptroller to contribute the balance of fund 60013 (OPEB fund), which is estimated to be approximately \$30 million to the CERBT.

11A. STAFF RECOMMENDATIONS:

12. SPECIAL CONDITIONS:

COUNCIL DISTRICT(S): N/A

COMMUNITY AREA(S): N/A

ENVIRONMENTAL IMPACT: This action is not a "Project" for purposes of CEQA.

HOUSING IMPACT: N/A

OTHER ISSUES: N/A

EXECUTIVE SUMMARY SHEET
CITY OF SAN DIEGO

DATE ISSUED: November 16, 2007 REPORT NO:
ATTENTION: Council President and City Council
ORIGINATING DEPARTMENT: Financial Management Department
SUBJECT: CalPERS California Retiree Benefit Trust Program
COUNCIL DISTRICT(S): Council District 1 through 8
CONTACT/PHONE NUMBER: Mary Lewis, 235-5880

REQUESTED ACTION:

- 1.) Approve the City's participation in the CalPERS California Retiree Benefit Trust Program (CERBT) to fund the retiree health liability (OPEB).
- 2) Authorize the Mayor to enter into an agreement with the California Public Employees' Retirement System (CalPERS) to participate in the California Employers' Retirement Benefit Trust Program.
- 3) Authorize the contribution of approximately \$30 million in funds appropriated for retiree health to the CERBT.

STAFF RECOMMENDATION:

- 1) Approve the City's participation in the CalPERS California Retiree Benefit Trust Program (CERBT) to fund the retiree health liability (OPEB).
- 2) Authorize the Mayor to enter into an agreement with the California Public Employees' Retirement System (CalPERS) to participate in the California Employers' Retirement Benefit Trust Program.
- 3) Authorize the contribution of approximately \$30 million in funds appropriated for retiree health to the CERBT.

EXECUTIVE SUMMARY:

City of San Diego has established and maintains health benefits for eligible retirees as provided in the San Diego Municipal Code Section 24.1201 *et seq.* Retiree benefits are currently administered the San Diego City Employers Retirement System (SDCERS) along with pension benefits. The City has historically paid for retiree health through annual budgeted contributions to pay for expected benefit costs in the current year, or pay-as-you-go. In Fiscal Years 2007 and 2008, Council approved \$5 million and \$25 million, respectively, in the annual budgets in addition to the pay-as-you-go amounts to begin to pre-fund the accrued unfunded liability for retiree health benefits, or Other Post Employment Benefits (OPEB). Currently, the OPEB funds totaling approximately \$30 million reside in a trust fund of the City and accrue interest based on the interest rate earned by the City's Pooled Investment Funds.

The Government Accounting Standards Board (GASB) now requires that municipalities report the net liability for retiree health on its financial statements. As a result of these new reporting requirements and to find an appropriate trust fund for the City's funding of this liability, staff request that Council approve participation in CalPERS' California Employers' Retiree Benefit Trust (CERBT). This trust fund meets GASB reporting requirements, invests the City's OPEB contributions at a longer term rate of return to achieve optimal asset growth, and mitigates the

City's reportable liability for retiree health. The California Employers' Retiree Benefit Trust (CERBT) Fund is an irrevocable trust fund - a Section 115 Trust - set up for the purpose of receiving employer contributions that will pre-fund health and other post-employment benefit costs for retirees and their beneficiaries. The City remains the plan sponsor and this action addresses the investment of the funds appropriated by Council to begin to pre-fund retiree health obligations. CERBT contributions are irrevocable, separate from the City's assets and will be dedicated to the payment of expenses for retiree health plan beneficiaries. The funds will be invested to grow retiree health assets for health beneficiaries in a cost effective trust structure administered by an organization that has a historical track record for strong investment management. (Past performance does not predict future results.) The administrative cost for the CERBT is estimated to be 50 basis points (.5%) applied to the invested funds, or approximately \$150,000 for a \$30 million dollar investment.

FISCAL CONSIDERATIONS:

Approximately thirty million (\$30,000,000) in funds appropriated by City Council for funding retiree health obligations will be contributed to the California Employer's Retiree Benefit Trust Program (CERBT) and invested according to the California Public Employees' Retirement System Statement of Investment Policy for Annuitants' Health Coverage Fund.

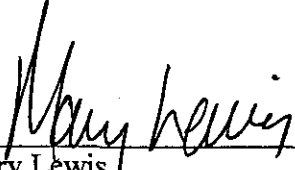
PREVIOUS COUNCIL and/or COMMITTEE ACTION:


The Budget and Finance Committee accepted the report on Health Trust Options on September 12, 2007. On November 14, 2007, the Budget and Finance Committee voted unanimously to recommend the City's participation in the CERBT to full Council with direction to consult with employee groups prior to its presentation to Council for their consideration.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: Consultations planned with the City's labor organizations.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Beneficiaries of the Retirement Health Benefit Plan of the City of San Diego and City Council Members as Plan Sponsors of the Retirement Health Benefit Plan


 Mary Lewis
 Financial Management Department


 Jay M. Goldstone
 Chief Operating Officer

RESOLUTION NUMBER R-_____

DATE OF FINAL PASSAGE _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
SAN DIEGO AUTHORIZING THE MAYOR TO ENTER INTO
AN AGREEMENT WITH THE CALIFORNIA PUBLIC
EMPLOYEES' RETIREMENT SYSTEM TO PARTICIPATE IN
THE CALIFORNIA EMPLOYERS' RETIREE BENEFIT TRUST
PROGRAM.

WHEREAS, the City of San Diego sponsors a retiree health benefit program [Program],
and has historically paid the annual costs of such program through budgeted pay-as-you go
contributions only; and

WHEREAS, Government Accounting Standards Board [GASB] accounting statement
45 requires that public entities report the net liability for retiree health on its financial statements
so that governments better understand the financial liabilities associated with retiree health care
costs and other post-employment retirement benefits; and

WHEREAS, based upon an actuarial valuation for the year ended June 30, 2006, the
unfunded actuarial liability for the Program has been estimated at approximately \$1.1 billion;
and

WHEREAS, in Fiscal Years 2007 and 2008, the City Council approved
\$5 million and \$25 million, respectively, in the annual budgets to begin to pre-
fund the accrued unfunded liability for the Program; and

WHEREAS, the California Public Employees' Retirement System
[CalPERS] has recently established a trust known as the California Employers'
Retiree Benefit Trust [Trust] for the purpose of allowing non contracting public

employers to participate in the Trust in order to pre-fund health and other post-employment costs; and

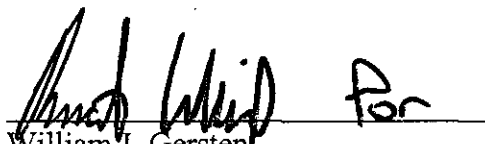
WHEREAS, it would be financially advantageous for the City to participate in the Trust in order to pre-fund costs of the Program; NOW, THEREFORE,

BE IT RESOLVED, by the Council of the City of San Diego as follows:

1. The Mayor or his designee is hereby authorized and directed to enter into an agreement with CalPERS to participate in the Trust [Agreement] substantially in the form presented to the Council on the date hereof and on file with the City Clerk as Document No. _____, with such changes therein as are necessary or advisable in consultation with the City Attorney.
2. The Auditor and Comptroller is hereby authorized and directed to transfer \$30 million from the OPEB Fund, Fund #60013, appropriated for retiree health, to CalPERS for deposit with the Trust in accordance with the terms of the Agreement.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By


William J. Gersten
Deputy City Attorney

WJG:amt
11/16/2007
Or.Dept:Financial Management
R-2008-425

I hereby certify that the foregoing Resolution was passed by the Council of the City of San Diego, at this meeting of _____.

ELIZABETH S. MALAND
City Clerk

By _____
Deputy City Clerk

Approved: _____
(date)

JERRY SANDERS, Mayor

Vetoed: _____
(date)

JERRY SANDERS, Mayor